

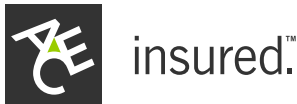
# BREAKTHROUGHS IN MANAGING TANGIBLE ASSETS: COMPLETING THE PICTURE OF WEALTH

by ACE Private Risk Services® and Trōv®



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# Most successful families and individuals rely on a network of professional advisors

to help them manage their financial assets, including strategies to transfer wealth to their heirs. Today, however, forward-thinking advisors, who include wealth managers, tax advisors, estate attorneys and insurers, say that too often high net worth families are not doing enough to manage and protect their tangible assets, beyond real estate. In recent years, tangible assets, such as fine art, wine, jewelry, antiques, sports memorabilia, classic cars and other valuables, have finally been recognized as an asset class in their own right. A comprehensive, full-circle view of any high net worth individual's wealth must include these tangible assets to complete the picture of total wealth management.

This paper explores important issues surrounding the management of the tangible assets that reflect the passions, interests and legacies of the individuals and families privileged to own them. Wealthy families, with the guidance of their advisors, must overcome the "blind spots" that are placing their tangible assets, and the wealth they represent, at risk. The challenges inherent in managing tangible assets include: determining value and authenticity, keeping proper documentation, as well as loss prevention, insurance, and estate and tax planning. Additionally, we explore how new technology is making it increasingly easy to collect, secure, manage and protect these valuables, while allowing families to enjoy their tangible assets in ways never before possible.

## THE GROWING IMPORTANCE OF TANGIBLE ASSETS

In recent years, high net worth families have increasingly turned to tangible assets for more than their aesthetic values. A 2012 Barclays report found that high net worth individuals in the United States hold an average of 9 percent of their wealth in tangible assets. A 2011 ACE Private Risk Services study of high net worth households found that 74 percent of respondents, all with more than \$5 million in investable assets, cited investment value as a reason to purchase rare art or wine, valuable jewelry, sports memorabilia or classic cars. Additionally, two-thirds said the potential for appreciation in value was important in their purchase decision.

As values of many categories of tangible assets have escalated, these assets increasingly serve to diversify investment portfolios during periods of volatile market gyrations. In the ACE study, more than half of the respondents reported that the investment diversification value of their tangible assets has become more important to them since 2008.

“Investors are increasingly looking to hard assets, such as valuable art, antiques or fine watches and wine collections, because of the perceived ability of these assets to hold value during market fluctuations,” says Tom Livergood, chief executive officer and founder of The Family Wealth Alliance, a Chicago-based family wealth research and consulting firm. “Across the industry, we’ve seen investors rush to safety and stay there.”

## HIGH NET WORTH BLIND SPOT

Even as tangible assets gain recognition as a new asset class, high net worth individuals rarely bring to their passions for art, wine or jewels the same rigor, skepticism and planning they have when making financial investments or business decisions. In ACE’s 2011 study, despite the growing number of households reporting greater importance of tangible assets to their investment portfolios, nearly 40 percent of those surveyed did not

have all of their precious items insured against property loss with a valuables policy. Additionally, one in three reported that they were not updating the market value of these assets at least once every three years, and a full 15 percent of respondents had no formal documentation of their non-financial assets.

“It’s amazing how often some advisors, especially those with sophisticated knowledge of financial markets, suddenly turn unsophisticated when it comes to non-financial assets, notably art,” says Ronald Varney, owner and president of New York-based Ronald Varney Fine Art Advisors.

“It is essential to constantly monitor the changing information about your treasures so you can make better decisions. When you have complete information about your property and possessions, you’re empowered to discover new ways that enhance the enjoyment of your possessions, for yourself and others.”

To Evan Jehle, a New York-based principal at Rothstein Kass, a professional services firm with a significant family offices services practice, wealthy families typically pay far less attention to their personal property than to their business affairs. “Our clients would never let something fall through the cracks in their professional lives, but many families have never thought of their tangible assets in this way before.”

“Until now, wealth managers have managed their clients’ risk and made critical decisions about their estates by analyzing the status of their financial assets, mostly to the exclusion of their personal and real property,” says Scott Walchek, Founder and CEO of Tröv, which provides innovative cloud-based tangible wealth management software that helps high net worth individuals know what they own, where it’s located and what it’s worth. “That’s not surprising since the traditional methods for managing and modeling wealth have focused primarily on financial assets. It is essential to constantly monitor the changing



information about your treasures so you can make better decisions. When you have complete information about your property and possessions, you're empowered to discover new ways that enhance the enjoyment of your possessions, for yourself and others."

Thomas Handler, partner and chairman of the Family Office Practice Group at Handler Thayer, LLP, a Chicago-based law firm recognized as a leader in serving family offices, private businesses and high net worth individuals, says his office often advises clients who come to his firm without a business plan for their tangible assets. "It is incredibly important for wealthy households to understand how to hold, report, title and insure their non-financial assets in estate planning. However, these calculations often become complicated and are rarely treated with the same discipline as traditional investment and business assets."

Tangible assets are a dramatically underappreciated component of wealth planning. As one private banker observes, "No one pays enough attention to tangible assets. Wealthy households simply don't understand the issues involved with properly protecting this asset class and often are unconcerned with their non-financial assets until it's too late. People don't know what they don't know."

## CHALLENGES OF MANAGING TANGIBLE ASSETS

Today's investors have the opportunity to reap significant benefits – financially and aesthetically – by investing in tangible assets, but these investments pose risks and challenges different from investment in traditional assets. Wealthy households and their advisors may cheer the rebounding market for art and other valuables, take comfort that they have diversified their investments and look forward to potential price appreciation in the future. However, those cheers could be premature if owners of non-financial assets fail to understand and properly address the critical issues facing these assets. Those issues include: value and

authenticity, documentation, estate and tax planning as well as insurance; additionally, owners of tangible assets should embrace the new technology tools that dramatically improve the management of tangible wealth.

## Value and Authenticity

The market value of tangible assets can change, sometimes rapidly. In July 2013, a 1954 Mercedes-Benz sold for \$30 million, the highest price ever paid for a car at an auction, shattering the previous record of \$16.4 million set in 2011. Global sales of wine, diamonds and precious gems have also been increasing, often to record levels. In December 2012, Sotheby's recorded its highest one-day jewelry sales in the Americas, selling \$64.8 million of high-carat diamonds and precious gems. The Live-ex Fine Wine 50 Index reached 106 in April 2013, up 5.3 percent in the first half of 2013. Over a 10-year period, prices for gold more than quadrupled, only to retreat more recently.



The market for fine art is especially robust. In 2012, Christie's auction sales totaled more than \$6 billion, a 10 percent increase from 2011. In May 2013, Christie's reported \$640 million of sales in its Post War and Contemporary department in one week, setting a new auction record for any individual category.

Dramatic shifts in the market present challenges as well as opportunities for investors of tangible assets. “Today’s market is both global and complex,” says Varney. “Modern and Contemporary art have made all the headlines, for that is where the greatest demand is today; but by next year the market could be turned upside-down, as happened in the fall of 2008 amid the global financial crisis.”

“Wealthy families should not be looking at their insurance policies as an expense, but as an investment.”

Alan Fausel, vice president and director of the Fine Art Department in the New York office of Bonhams, a London-based auction house, cites the rapidly changing market as a serious issue for investors. “There is a huge risk and reward in today’s market because so many investors are entering uncharted territory. Today’s contemporary market has seen

so much volatility and so much uncertainty with newly famous artists, that investors are especially challenged to understand the true value of the works they own.”

Protecting investments in art, jewelry, antiques or wine begins with an appraisal. Smart investors should perform their due diligence to select appraisers with specific expertise in the genre of their assets. “An accurate appraisal is the foundation for every decision an investor will make regarding his or her tangible assets,” says Anita Heriot, Philadelphia-based president of Pall Mall Advisors, a U.S. and U.K. art appraisal firm. Before donating, selling, insuring or placing valuable items in a succession plan, investors must know how much everything is worth. “Wealthy individuals must understand that the values of their tangible assets have changed and these values will continue to change over time,” says Heriot. “Without understanding the value of their property, people cannot even begin to make correct decisions.”

## SEVEN STEPS FOR MANAGING TANGIBLE ASSETS AS PART OF A COMPLETE WEALTH PROTECTION PLAN

**1 | Assemble the right team of experts** To most effectively manage the risks involved with investing in tangible assets, families and their wealth advisors should select a qualified team of experts to assist with documenting, valuing, insuring and protecting their prized possessions. The team should include the following experts:

- ☐ Independent insurance agent or broker who specializes in serving HNW clients. To identify these agents, check to see that they have a well-defined process for assessing personal risks and have access to carriers such as ACE Private Risk Services that also specialize in serving HNW clients.
- ☐ Loss prevention specialist. HNW-market carriers like ACE often have risk consultants who can offer complimentary advice about minimizing the chance of loss, including recommendations for specialized security and safety vendors.
- ☐ Estate and tax planner, CPA and attorney. Family offices, collectors or wealthy donors each face a unique set of estate, accounting and tax planning needs. Research an estate planner or tax attorney who is best suited to meet these specific needs and provide specialized advice for different types of assets or changing circumstances.

**2 | Secure an accurate appraisal by a qualified appraiser and consider appraisals from several appraisers for especially valuable pieces.** Appraisal industry associations, such as the American Society of Appraisers, Appraisers Association of America and International Society of Appraisers, provide guidance when it comes to selecting a qualified appraiser for your assets, for insurance purposes. The IRS provides and requires additional regulations and guidelines for appraisers and appraisal reports for income, gift and estate tax purposes. Consider two or three appraisals, by different appraisers at the same time, to guarantee your assets are valued accurately, as the appraisal is the foundation for almost every decision made with tangible assets.

**3 | Implement a tangible wealth management system to continuously track new transactions at the point-of-sale and monitor price changes that affect your property’s value.** Consider cloud-based software to help manage the records of your assets. These systems should store important details about each item along with its value, proof of authenticity and a schedule to update valuation. The most robust solutions will be able to accept information about transactions at the point of sale, eliminating the tedium of manually entering new items. They will also be able to automatically adjust valuations as related sales occur at retail and auction houses.

Heriot observes that wealthy individuals sometimes dramatically undervalue their tangible assets. She recalls one family that was tracking their assets based on appraisals from 1983, nearly 30 years between consultations. The collection was originally valued at about \$2 million but after an updated appraisal, the fair market value was nearly \$100 million. “There were paintings of incredible value hanging on only one nail, including a Rothko with an insurance value of at least \$70 million. Had this family known what their property was worth, they certainly would have taken better care of it.” An appraisal from a qualified professional can also minimize other risks, as well as provide guidance regarding potential fakes and forgeries. In addition, an appraisal can identify other issues that could impact the value of the item or the right to ownership. These include the sale of items made from protected species, protected antiquities or stolen works.

## Documentation

All too often, high net worth individuals and families find the process of documenting, tracking and managing the contents of their home, including fine furniture and other valuable items, to be an onerous task. Proper documentation of personal property typically involves photo or video records, storage of purchase receipts and, in the case of highly valuable items, expert appraisals, proofs of title and provenance, and records of any restoration work. Moreover, values need to be regularly updated, sometimes on both a depreciated value and replacement cost basis.

“Families rarely keep accurate records of their tangible assets because, quite frankly, it can be a lot of work,” says Jarrett Bostwick, wealth transfer and estate planning specialist at Handler Thayer LLP, the Chicago law firm. “If someone buys two pieces of art, a piece of jewelry, two watches and a diamond pendant for his wife, then they have to sit down and put a schedule together, contact the insurance company and have them come in and have

High net worth homeowners can only sufficiently protect their wealth and understand the financial options available to them if they have access to a 360-view of all of their tangible assets. Financially successful families, and their wealth advisors, can take seven steps to manage the diverse, complex and evolving set of risks involved with this increasingly important asset class.

**4 | Work with the insurance agent to set proper limits of coverage for general contents and schedule valuable items on a valuables policy.** Proper insurance coverage is a critical component of any wealth protection plan. For the best protection, families should insure their precious possessions with a valuables policy, which enables them to declare the value of each piece, or group of pieces, on the policy. This coverage is not restricted by specific coverage limits for certain items in homeowners policies, and it applies to a broad array of risks, including those excluded by homeowners policies, such as flood. No deductible applies. The best policies will guard against price fluctuations by providing coverage for the market value of an item just before the time of loss up to 50 percent more than the value listed on the policy.

**5 | Engage the services of a risk consultant to help prevent loss.** Wealthy families often fail to work with a professional risk consultant, leaving themselves and their assets exposed to serious risks. Even if a property is adequately insured, virtually all owners would prefer to prevent loss in the first place over having to make a claim. A risk consultant can recommend and help owners implement key loss prevention strategies, including an updated inventory of property, evacuation planning, background screening of domestic staff and contractors, and backup power supplies for environmental controls and security systems.

**6 | Determine a lifetime strategy for your valuables, including a succession plan, at the outset.** Too many families wait to develop a strategy for their valuables until it is too late to make a rational decision about a succession plan. It is never too early to begin planning. Discuss the various methods with your key advisors, such as lending pieces to museums for a period of time, which can enhance their value. If you're planning on leaving your assets in a will or trust, donating pieces to a museum or writing an estate planning letter, you will need professionals who have experience dealing with these assets and their unique tax and financial opportunities and consequences. Proper documentation enables proper planning and ensures that the proper tax basis is reflected, which can save family members thousands of dollars.

**7 | Regularly discuss your tangible assets with your circle of advisors.** In every wealth planning consultation, devote sufficient time to discuss the quantity of tangible assets in your portfolio and the values for each item. Families may not consider themselves to be collectors, but anyone who owns jewelry, watches, memorabilia, antique furniture or other luxury items must ensure those valuable items are properly accounted for. Unless advisors are kept up to date about your tangible assets, they will be unable to help you minimize risk or capitalize on opportunities, such as being able to secure a loan on favorable terms by using the assets as collateral.

them ask you a whole bunch of questions, which is kind of a pain. Rarely do our clients partake in this kind of rigor.”

If documentation is done at all, it tends to be completed inadequately and infrequently. ACE Private Risk Services and Trōv have been collaborating on a program in which specialists have examined the contents of more than 3,000 homes of high net worth families. In this Home



Contents Valuation program, ACE risk consultants utilized Trōv technology to provide the industry’s first customized estimates of the value of a home’s contents at policy inception. Nearly 50 percent of the homes evaluated did not have enough insurance to cover their contents, and the average amount of underinsurance exceeded \$415,000 per home. Condominium homes were particularly at risk. Nearly 80 percent have inadequate contents coverage. The shortfall was larger for homes with higher structural values. Among homes warranting an increase in contents coverage, those with a structural value of \$2 million to \$3 million had an average shortfall of \$417,000 in contents coverage; those with a structural value of \$5 million to \$7.5 million had an average shortfall of \$852,000. Furthermore, many valuable items were only protected by general contents coverage in the homeowner policy, when they should have been listed as scheduled items in a valuables policy.

The lack of proper documentation of a family’s tangible assets can lead to wide-ranging problems. “You have to know what you have in order to be worried about it, and to take steps to avoid losing it,” says Joy Berus, attorney

at Berus Law Group in Newport Beach, Calif., a specialist in tangible asset protection. “If a family doesn’t have an updated inventory of their valuable possessions, they leave themselves vulnerable to taxes that could have been planned for and reduced, discrepancies, risk of serious financial loss and the inability to pass down their assets to the next generation with a step up in basis. Proper documentation of a household’s tangible assets is the first step in identifying a family’s tangible wealth, and can make the difference between security and paralysis.”

The magnitude of the potential issue is evident in one statistic: over the next 30 years, as much as \$27 trillion of family wealth will be transferred from Baby Boomers to their children and grandchildren. That inheritance will include a great deal of tangible assets that will need to be documented, appraised, accounted for and protected.

Wealth managers often encounter situations in which a client dies and the family or trustee does not know where all of the valuables are. “These issues

don’t usually come up until a client passes and you have to collect all of the assets and figure out what’s there,” says one wealth manager who works with high net worth clients. “Tangible assets aren’t addressed enough in the typical conversations between wealth managers and their clients.”

Handler, the attorney, points to the case of a noted photographer who was living in a retirement home. He kept with him a large collection of negatives of images of leaders, celebrities and historical events. The photographer suffered from dementia, and over the years most of the collection slowly disappeared. “Unfortunately, the family did not have a record of everything and didn’t know who took the photographs,” Handler recalls. “We found some of the items on the black market on websites. But the vast majority is never going to see the light of day.”

Berus recalls working with professional athletes and asking if their wealth advisors asked them if they possessed sports memorabilia. “Every one of them said the same thing, ‘Nobody has ever asked before.’



One retired football player talked about how he lost the majority of his lifetime collection because it had been in a fire and it wasn't insured. He couldn't prove what he had and had a major loss because of it."

Says Berus, "When people don't know what they have, they can lose money and be taken advantage of by people who do know what they have. You don't want to lose the value of what you own or be taken advantage of. You also don't want to cause tax problems for yourself or pay unnecessary taxes. When you know what you have and know what it is really worth, you can make better decisions."

## Estate and Tax Planning

For wealthy families, tangible assets can raise significant financial, legal and emotional issues. On the financial and legal side, valuables can have serious tax implications and should be an important part of tax and estate planning, experts say. On the emotional side, collectors may want to share their passion for classic cars or art by leaving those treasured possessions to heirs or a cultural institution. Sometimes, however, their children don't want them and the museum is not interested. And without proper tax planning, a collection may have to be broken up or sold off to meet tax obligations.

"You can't take it with you, so the question becomes: what's the game plan? What's the exit? All of the things in the house, whether they are collectibles or not, need to be dealt with," says Handler. "It matters how you hold it, title it, insure it, and what you provide in the estate document."

Professional advisors say high net worth families should not wait to consider these issues but should make plans early. "Tax attorneys and estate planners should be proactively involved and collaborating through every step of the estate planning process," says Jehle, of Rothstein Kass. "Your estate plan should be a living, breathing entity and should be regularly reviewed."

Thorough documentation and regularly updating valuations are important for tax and estate planning. The IRS, for example, has valuation requirements that include definitions of what constitutes a qualified appraisal.

Similarly, the IRS rules for charitable donations, gifts and wealth transfer raise important estate planning considerations with regard to tangible assets.

Estate planning concerns often arise when a loved one passes away and an inventory is required for tax purposes. This necessity can leave families in a difficult situation because they did not anticipate what their family member owned or if those assets were ever reported. "Tax planning is just as important as proper valuation because proper reporting of tangible assets can actually help families save in taxes," notes one tax expert.

Berus advises that investors always keep an inventory and report their tangible assets. "Some professionals present families with strategies to avoid reporting their tangible assets on their estate tax returns, but that essentially amounts to fraud," Berus says. "Legal requirements state that any fine art, collectibles or jewelry valued greater than \$3,000 must be listed on estate tax returns. If your tangible assets are not inventoried and insured, that means that they also are not protected now, and that no financial plan or tax planning is in place for the future, and you are putting yourself at risk."

"Proper documentation of a household's tangible assets is the first step in identifying a family's tangible wealth, and can make the difference between security and paralysis."

In succession planning, the emotional attachment families have to their tangible assets, especially if artwork or jewelry has been passed down for generations, can often outweigh all other considerations. In these situations, Handler, of Handler Thayer, often advises families to develop an estate planning letter. These letters are private documents explaining one family member's wishes for a particular possession, the historical context behind the belonging and the emotional attachment driving this decision. "These letters are very powerful statements that serve to minimize divisive estate contests," Handler says. "We often see an incredibly personal, family aspect with these assets."

## THE FUTURE OF WEALTH: TECHNOLOGY TOOLS HELP YOU STAY COOL, CLOUDY AND COLLECTED\*

*By Scott Walchek, Founder and CEO, Trōv*

It's 2014 and as expected, your life is ever more mobile and essentially connected. As a collector and investor in multiple classes of tangible assets, you are no stranger to the latest and best of what a global market has to offer.

The map on your smartphone guides you to a “connected” gallery. As you enter the gallery, you swipe your phone across a “check-in” sign on an elegant pedestal. In so doing, you share limited data about your art preferences to the proprietor who is instantly informed and tailors your visit with targeted recommendations, including inventory that isn't on display. And so begins a personalized, rich experience as you start to stroll the gallery.

While admiring the contemporary art, you swipe your smartphone across the discrete digital tag attached to the pieces you're considering for the foyer of your resort home. With each interaction, your phone lights up with a description of the piece, an insightful story about the artist, a summary of its provenance, photos of some non-obvious details, suggested price, and even title and property insurance options — should you consider a purchase. Convinced you've found the perfect canvas to grace your new retreat, you confirm the acquisition option and seamlessly your account is debited and the title transferred to your personal property cloud — the online digital location where the information about all your acquisitions is secured, organized and actively managed.

The chime on your phone alerts you that a new item's been added to your personal property cloud and you open the app that enables you to review your recent purchases. There, in beautiful high-resolution clarity, are several photographs of the painting you just acquired, all its purchase details and documents that attest to its authenticity, provenance and certified appraisal. Now, because it retains the details of your real estate portfolio, the same application asks where you would like the newly acquired art to be located. Mindful of the need to protect your treasures, you securely select the precise property, floor and room in which the newly acquired painting will hang.

Meanwhile, in the background, the salient details of your acquisition have been sent to your insurance broker who amends your policy with its retail replacement value. Your wealth manager receives a similar notice and adds the painting's value to your tangible wealth report. The data within your personal property cloud is refreshed with every change

## Loss Prevention

By definition, tangible assets are subject to risks of physical damage, theft and the ravages of time. Yet experts say that high net worth families often neglect to take proactive steps to protect their art, jewelry, wine and other valuables from these threats. One ACE study, for example, found that 40 percent of wealthy individuals surveyed failed to take advantage of the services of a risk consultant who could help them reduce the risk of damage and theft.

Collectors do not always realize the risk prevention measures available to them to help guard against, and minimize, exposures, says Heather Becker, chief executive officer of The Conservation Center, a Chicago-based provider of conservation services for fine art, textiles, photography and sculptures. “No one wants to think a significant loss will happen to them.”

Many families display or store their precious possessions in ways that increase the risk of loss. For instance, they hang artwork above an active fireplace, where the hot, dry air and soot accelerates deterioration. They neglect to place a historical artifact, such as a letter written by a famous figure, in an archival box protected by anti-ultraviolet protective glass, exposing the artifact to dangerous rays and fumes. Or they store a valuable stamp collection in a closet beneath a bathroom. If the tub overflows or the toilet develops a leak, the stamps could be ruined. “So many people forget that these assets – art, wine, gems – are very fragile,” Varney says. “Valuable assets can go from \$1 million in value to \$0 in the blink of an eye.” Investors who fail to properly address these threats remain vulnerable to severe financial loss.

Even items made of strong, durable materials can be at risk. Becker recalls the story of an ancient metal sculpture, which its owner stored in a warehouse for several years while not on display. While the owner made sure the sculpture was stored in a protective crate, the crate was stored on its side, instead of standing up. “The sculpture was severely warped and sustained considerable damage,” says Becker. “There is a cumulative effect to these risks that individuals must account for.”

Gary Raphael, senior vice president, Risk Consulting, ACE Private Risk Services, cites an updated inventory of

tangible assets as the single most important loss prevention technique available to wealthy households. “Everyone talks about this issue and yet I’d estimate that 99 percent of families don’t maintain an accurate listing of personal property. This cannot entirely prevent loss, but it will make the mess substantially easier to clean up, should a loss occur.”

Raphael recommends that families incorporate an evacuation plan for their valuables in the event of an impending disaster such as a hurricane, flood or wildfire, especially if there is a custodial duty to protect their tangible assets for either cultural or family reasons. Alarm systems – for both fire and theft – are efficient and cost-effective ways to add significant security measures for protection. Homeowners should install a leak detection system to arrest the flow of water in case of a burst pipe or accident. “Every day, every hour, the primary threat to a family’s non-financial assets is water,” Raphael says.

Background screening programs for household help and contractors can help prevent theft. Nannies, gardeners, cooks, drivers, and contractors may all have significant access to a family’s confidential information and treasured possessions.

Lastly, wealthy homeowners should install a backup generator to ensure the ability to control the environment in which these tangible assets are held. Says Raphael: “Everything a family owns benefits from the ability to prevent water, detect fire and control the environment.”

## Insurance

Given the increasing value of rare art, precious gems and fine wine, and the array of physical threats and other financial exposures confronting these pieces, proper insurance represents a critical part of a complete wealth protection plan. Often the best place for families and their wealth advisors to start addressing this need is with an insurance broker or independent agent who specializes in serving families with emerging or established wealth. These insurance advisors, who can be recognized by their access to specialty insurance carriers, can usually suggest and coordinate services from a variety of experts appropriate for this asset class.

While investors of tangible assets may go to great lengths to acquire the items they desire, they frequently fail to

affected by the major auction houses’ activities. Because your advisors receive regular automated notifications of its present fair market value, the next time you meet, you’ll have an up-to-date view of both your financial and your tangible wealth.

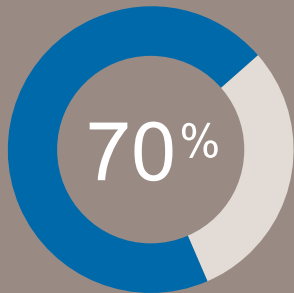
Later that weekend, while you’re hosting a gathering at your home, your friend mentions an artwork similar to the piece you’ve just acquired. With your tablet you launch a flipbook-style app that enables you to vividly display your recent purchase, omitting purchase price and other private details. You engage in a lively exchange with your guest about your mutual passion for the genre. Inevitably, your conversation leads to the resort home you’re decorating and — using the same application that draws from the data in your personal property cloud — you open a map view of the main floor which now indicates that your artwork is located there. With just a couple of swipes and pinches, your entire art collection is displayed, and your conversation is enhanced with new information and the discovery of common interests.

While you enjoy the hunt for new valuables, all of this decorating is a drain on your available cash, so you’re considering liquidating some of your equities to fill the gap. A quick check of your portfolio shows that many of your most promising holdings have swung lower in recent weeks and your investment advisor suggests caution until there’s a bit more recovery. Christie’s and Sotheby’s have recently completed successful auctions and your tangible wealth dashboard reflects that the fair-market value of a few of your pieces has increased measurably from your purchase price. Now, you’re presented several options to test the demand for your tangible assets, and you select the option to invite other collectors to bid on your items in a private exchange. To serious bidders, you grant restricted access to the information about your assets stored in your cloud so that prospective buyers are fully informed and assured of their value and authenticity.

While this scenario above may seem too futuristic to be a reality, the technology, infrastructure and software supporting it are in various stages of commercial deployment right now. Even if we swap out the gallery example with an auto showroom, boutique jewelry store or antiques remarketer in the above scenario, the interactions, user experience and results are remarkably similar. The cadence and content of our acquisitive lives — especially of the tangible assets we own — are going through profound change. Given the tectonic shifts in the consumption of emerging technology, there is little doubt that our tangible lives will be transformed to such an extent over the next decade that today’s means of purchasing, tracking and valuing tangible assets will look antiquated and irrelevant. This is the future of wealth.

*\*This section is adapted from an article in the June 2013 issue of JetSet magazine*

## VALUABLE ART AND JEWELRY FREQUENTLY UNDERINSURED

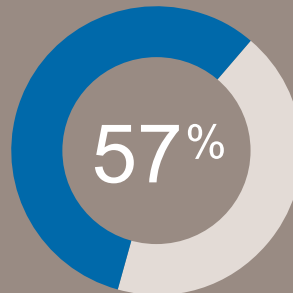


The percentage of fine artwork that is potentially underinsured or of undetermined value in high net worth homes, based on an analysis of 94 valuables schedules

**\$9,200**

The average amount by which each item of fine art is underinsured

*Source: ACE Private Risk Services and Tröv*



The percentage of jewelry that is potentially underinsured or of undetermined value in high net worth homes, based on an analysis of 94 valuables schedules

**\$18,300**

The average amount by which each item of jewelry is underinsured

adequately protect them. In a 2012 ACE survey, fully 86 percent of insurance agents said the families who insure their homes and possessions with mass-market insurance companies likely carry too little insurance for their treasured items.

Families should seek the added protection of a valuables policy for these high value possessions. Often known as scheduling an item, a valuables policy allows the family to declare the value of each piece, or group of pieces, on the policy. This valuation is not restricted by specific limits of coverage for certain items such as jewelry, stamps, coins and firearms in the homeowner policy, and the coverage applies to a broad array of risks, including those excluded by homeowners policies, such as flood. Also, no deductible applies.

Policies from high-net-worth-market carriers have additional advantages. These policies provide a buffer against temporary fluctuations in the replacement cost of valuables articles by paying market value just before the time of loss up to 50 percent higher than the scheduled amount of coverage. Standard policies do not offer this protection. In fact, some may pay even less than the scheduled amount if an actual cash value clause is in effect. "Wealthy families should not be looking at their insurance policies as an expense, but as an investment," Raphael says.

These carriers also provide the ability to cover groups of items, such as a wine or art collection, on a blanket basis in which an overall coverage amount is set for the group. This approach makes the overall policy significantly easier to manage.

But a valuables policy will only be as good as the quality of information provided to the insurance company. To properly insure these assets, high net worth families must first understand what they own and what it would cost to replace their assets.

"Tangible assets aren't addressed enough in the typical conversations between wealth managers and their clients."

Too often, wealthy households fail this beginning task. Many use simple spreadsheets that cannot easily capture and organize supporting documents such as photos, bills of sale and formal appraisals. They may also fail to track the current market value of their collections. In the ACE study, one in three was not updating the market value of his or her collection every three years. That is not often enough, considering the significant shifts that have been occurring in the market value of gold, silver, art and other types of tangible assets. "I always recommend that clients update the value of their artwork every one-to-two years, especially when it comes to Contemporary art," says Fausel of Bonhams.



## HIGH NET WORTH HOMEOWNERS OFTEN UNDERINSURED FOR CONTENTS COVERAGE

High net worth homeowners are often underinsured for contents coverage by an average of more than \$415,000, an ACE Private Risk Services program found. The study's findings are indicative of an industry-wide problem: homeowners rarely know how much it would cost to replace the contents of their homes after a total loss. Too often, contents coverage has been based on assumptions – either a rough guess by the client or insurance agent, or a default percentage of the home's structural value.

As a solution, ACE launched its Home Contents Valuation Service in August 2011, making it the first and to date only high net worth insurance carrier to offer systematic, tailored estimates for determining their clients' personal property coverage at policy inception. The service provides customized estimates to homeowners about the value of the general contents in their home and enables homeowners and agents to make more informed decisions on the amount of personal property coverage needed. Offered to select clients, the program is operated in conjunction with Trōv, a leader in the field of tangible wealth management.

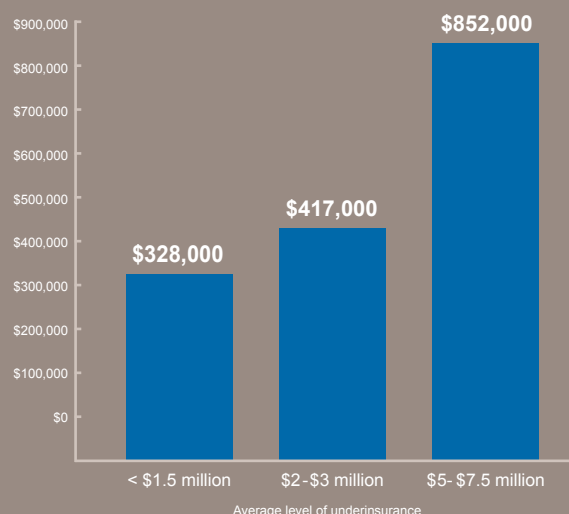
ACE armed its risk consultants, who were already visiting high value homes to estimate structural replacement value, with a proprietary tablet application to capture information about the contents of the home. The risk consultants compare this data with Trōv's database of more than 200,000 items often found in high-value homes to generate an estimate of contents value.

Since deploying the service, ACE Private Risk Services has found that nearly half of the homes evaluated have insufficient coverage for contents, and the coverage deficiency averages \$415,000 per home. Condominium homes are particularly at risk. Nearly 80 percent have inadequate contents coverage. One client with a \$2 million condominium wound up increasing his personal property coverage by \$1.3 million, showing how extreme the problem of underinsurance for contents can be relative to home value. ACE's closer review of clients' personal property also encourages many clients to ultimately schedule their most prized possessions on a valuables policy.

# \$415,000

The average level of underinsurance for coverage of home contents, according to an ACE Private Risk Services and Trōv evaluation of thousands of high net worth homeowners. The shortfall in home contents coverage was higher for homes of greater structural values

AMOUNT OF UNDERINSURANCE FOR CONTENTS BY STRUCTURAL VALUE OF HOME



“Waiting three years or more means their valuations will be wildly out of date.”

ACE Private Risk Services and Trōv analyzed 94 valuables schedules to compare stated replacement values with current market values. The analyzed schedules contained between 20 and 75 items, with stated replacement values between \$150,000 and \$1 million. Trōv valuation specialists analyzed 48

schedules of fine art assets comprising 1,722 objects, and concluded that 665 objects were potentially underinsured. The underinsured valuables, representing 38 percent of all analyzed assets, were underinsured by an average of up to \$9,200 per object. When Trōv specialists analyzed 46 jewelry schedules, one in four objects analyzed was potentially underinsured, with an average level of underinsurance of up to \$18,300 per object. Moreover, 32 percent of all the analyzed items

had descriptions that were too vague or incomplete to allow for an accurate valuation. If a loss were to occur, this could lead to a dispute.



## TECHNOLOGY EMERGING FOR TANGIBLE WEALTH MANAGEMENT

For individuals and families with substantial tangible assets, new technology tools exist to make tracking, analyzing and sharing information about their assets significantly easier and more efficient. Pall Mall's Heriot sees high demand for these tools. "As tangible assets become more valuable and wealthy families become more invested in their personal property, we see clients begging for a better understanding of what they own and greater knowledge of what it's all worth." The goal for wealth advisors and their clients should be to make the activities of tracking and analyzing information about their personal property regular, everyday actions rather than infrequent behaviors.

Current progress toward these goals is promising, though widespread adoption is still forthcoming within the industry. ACE Private Risk Services has become the first high net worth-market insurance carrier to provide its clients with access to its Home Contents Valuation service. This program provides guidance

regarding general contents coverage at policy inception, removing the guessing game too frequently associated with contents coverage. "A fundamental problem in the insurance industry is that coverage for personal property, a home's contents, is typically assigned based on a percentage of the home's structural value or it is a guess," says ACE's Gary Raphael. "For the first time, high net worth homeowners have a structured, systematic way of calculating how much their property is worth."

Solving the challenges of collecting and usefully managing information about personal property is the purview of a handful of emerging companies that are focusing on automating the gathering, organization and maintenance of that information.

Trōv has developed technology, partnerships and applications to collect and tame the unruly mass of data about every tangible asset in its members' lives. The core of the Trōv platform is a private online digital locker where the information about property and possessions is collected and securely managed (called a Trōv, like treasure trove). Since most of Trōv users' important personal property is located in their private spaces, Trōv is training the world's leading appraisers and insurance risk managers to use its Trōv Collect application when they are in their clients' homes. With the acquired information, a Trōv is activated – and with it a complete knowledge of what each family owns, where it's located and what it's worth. This information is securely accessible anytime, anywhere.

New acquisitions can be automatically added to a personal Trōv at retail point-of-sale, via electronic receipts, and through a mobile application. The Trōv Mobile app enables members to snap a picture of any acquired item, add any support information, such as a receipt, package art, bar-code or QR-code, and send it to their Trōv in real time. As new purchases are added, and as values change within the Trōv, the member can choose to have his or her advisors automatically notified to ensure the items are always accounted for and adequately protected.

Walchek, CEO of Trōv, believes that mobile and cloud technologies are helping to revolutionize the way tangible assets are collected, valued and managed. “Until now, households have had few options for easily collecting and maintaining the information about everything they own in one place. Trōv’s digital locker makes this possible – providing a 360 degree view of tangible assets so their owners can fully benefit from everything that they own.”

## VISION OF THE FUTURE

The future of wealth management encompasses an understanding of a client’s tangible assets as well as his or her financial assets, completing the picture of total net worth. By utilizing a continually updated inventory of personal property, families and wealth advisors can manage risk on a real-time basis, applying effective loss prevention techniques, securing the proper amounts of high quality insurance coverage, and anticipating tax and estate planning issues. For advisors, one important benefit of new technology is the ability to gain a complete, holistic view of every client.

With precise, up-to-date valuations and proper documentation of tangible assets, insurance companies such as ACE will be able to proactively recommend safety measures and introduce coverage rates that are increasingly fair, accurate, and economical.

For private bankers, estate planning attorneys and family offices, the development of new technology tools will enable a deeper relationship with their clients and referral network. Wealth advisors will be able to leverage these tools to expand the perspective they offer to clients and engage other appropriate professionals, such as insurance brokers, on a more timely and routine basis. Advisors who provide clients with a full-circle view of their assets will be well positioned to gain a competitive advantage.

Finally, for the families and individuals themselves, cloud services, such as those provided by Trōv, will not only improve management but enhance enjoyment of their prized possessions. With a few simple strokes on their mobile device, they will be able to share their valuables with like-minded collectors. Buying, selling and sharing will become a dynamic experience. “Someday very soon everything you own will have its own story built right into it,” says Trōv’s Walchek. “Through technology innovation, we’re about to enter into a whole new world of tangible wealth management and enjoyment.”

## CONCLUSION

Demand for tangible assets of art, wine, jewelry and other collectibles is on the upswing and auction sales across the globe continue to skyrocket. As these tangible assets are increasingly recognized as means of investment diversification, wealth advisors are challenged to provide a full-circle, comprehensive view of a client’s entire portfolio. Fortunately, new technology tools are meeting these ever-expanding demands. Mobile and cloud technology services improve the tracking, management and valuation of tangible assets, providing families and their team of advisors with greater awareness. Furthermore, these tools enable them to secure comprehensive insurance coverage and loss prevention services, assess investment risk across both financial and tangible assets, and more effectively anticipate tax and estate planning issues. In today’s digital age, an analysis of any high net worth individual’s assets must include these tangible assets to complete the picture of total wealth management.

## ABOUT THE QUOTED EXPERTS



**Gary Raphael, Senior Vice President, Risk Consulting, *ACE Private Risk Services***

Overseeing all Risk Consulting services at ACE Private Risk Services, Gary Raphael is responsible for ensuring that families with substantial assets have adequate levels of coverage for their homes, valuable collections, and other personal property, and for delivering safety programs that enhance family security and prevent loss. These safety programs have earned the prestigious MarketScout 2010 Entrepreneurial Insurance Award for ACE's efforts in preventing home water damage, as well as recognition in Best Review magazine's Innovation Showcase for ACE's Home Contents Valuation Service. Recognized as an expert in the industry, Gary has been quoted by numerous media outlets, such as Barron's, Reuters, Fox Business, Private Wealth and TheStreet.com. He also served on an expert panel addressing techniques for protecting fine art and collections at the first conference of the Council for Insuring Private Clients.

Mr. Raphael has 25 years of personal lines insurance experience. Prior to joining ACE in 2008, he has held a variety of management roles at Fireman's Fund, AIG Private Client Group, PLI Brokerage, and Chubb & Son. He has been a licensed property claim adjuster and a licensed property and casualty agent, and completed the ITI Antiterrorist Defensive Driving and Surveillance Detection training program.



**Scott Walchek, Founder and CEO, Trōv**

Scott Walchek is the founder and CEO of Trōv, whose applications help people collect and benefit from the information about every thing they own. He is a renowned technology entrepreneur with key successes in interactive media and internet technologies. Scott was a founding management member of Macromedia (NASDAQ: MACR), an innovator in interactive media tools; later, as CEO of Sanctuary Woods (NASDAQ: WSMC), his team built 4 interactive-media studios and developed nearly 60 titles for Electronic Arts. Scott was the founder and CEO of C2B Technologies, a pioneer of online product search technologies, and his company was acquired by Inktomi (NASDAQ: INKT – now Yahoo!). He was a co-lead investor and founding director of Baidu (NASDAQ: BIDU), China's dominant internet search engine, which in 2005 completed the most successful IPO by a foreign company in NASD history. In 2008, he launched DebtMarket, an electronic marketplace for portfolios of non-securitized debt where he served as its Chairman and CEO until it was acquired by Intercontinental Exchange (NASDAQ: ICE) in 2011. Additionally, Scott co-founded Integrity Partners, a boutique venture capital firm investing in early stage technology companies.

**Joy Berus, Attorney, *Berus Law Group***

Joy Berus has over 20 years experience in the practice of art law. She has established a national reputation as a leading art law consultant and attorney. Berus Law Group excels at assisting art and collectible owners with purchases, sales, consignments, loans, and donation transactions, as well as customizing wealth management, investment and tax strategies for individual clients and institutions with tangible personal property assets.

**Alan Fausel, Vice President and Director of the Fine Art Department, *Bonhams***

Bonhams, founded in 1793, is one of the world's largest auctioneers of fine art and antiques. The present company was formed by the merger in November 2001 of Bonhams & Brooks and Phillips Son & Neale. In August 2002, the company acquired Butterfields, the principal firm of auctioneers on the West Coast of America. Today, Bonhams offers more sales than any of its rivals, through two major salerooms in London: New Bond Street and Knightsbridge; and a further three in the UK regions and Scotland. Sales are also held in San Francisco, Los Angeles, Carmel, New York and Connecticut in the USA; and Germany, France, Monaco, Hong Kong and Australia. Bonhams has a worldwide network of offices and regional representatives in 25 countries offering sales advice and valuation services in 60 specialist areas. For a full listing of upcoming sales, plus details of Bonhams specialist departments go to: [www.bonhams.com](http://www.bonhams.com)

**Heather Becker, CEO, *The Conservation Center***

The largest facility of its kind in the nation, The Conservation Center is a nationwide provider of fine art conservation services in ten disciplines, including paintings, works on paper, sculpture and museum quality framing. As one of the nation's leading private art conservation laboratories, The Conservation Center has cared for fine art from some of the country's most prestigious museums, galleries, insurance companies, corporations, and private collections. Their expert staff is committed to offering their clients the ability to ensure the preservation of an entire fine art collection. Contact: [Heather.b@theconservationcenter.com](mailto:Heather.b@theconservationcenter.com) and [www.theconservationcenter.com](http://www.theconservationcenter.com).

**Tom Livergood, CEO and Founder, *The Family Wealth Alliance***

The Alliance is a research, publishing, and consulting firm known for its innovation and adherence to its core value of Placing Families First. In 2010, it launched the Alliance Security Council, whose mission is to safeguard the lives and livelihoods of private families. In 2011, the firm inaugurated two online publications, The Alliance Report and the Security Council Briefing. The Alliance is based in Wheaton, Illinois, USA.

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**Thomas Handler, Partner & Chairman of Family Office Practice Group, *Handler Thayer, LLP* and *Jarrett Bostwick, Wealth Transfer and Estate Planning Specialist, Handler Thayer LLP***

Handler Thayer, LLP is dedicated to rendering superior, technologically current, and innovative professional services to affluent families, family offices and privately-held companies. In furtherance of this objective, the firm attracts and develops highly qualified, dual-degreed attorneys committed to personal and professional excellence. The firm's reputation has been built upon a foundation of integrity, community service and creative, cutting edge, business, tax, and financial solutions. Above all, it is the firm's unique combination of exceptional work product and highly responsive, personalized client services that makes Handler Thayer one of the premier private client law firms in the United States. In 2013, Handler Thayer, LLP was named Best Private Client Law Firm in North America by Family Office Review and Best Private Client Law Firm in the United States by Private Asset Management Magazine.

**Anita Heriot, President, *Pall Mall Advisors***

Pall Mall Art Advisors is an international appraisal and advisory firm with offices located in Philadelphia, San Francisco, London, Glasgow and Edinburgh. Their experienced appraisers and specialists provide appraisal and management services for personal, corporate and institutional collections in addition to advising on the acquisition and disposal of individual works. They provide appraisal services ranging from insurance, trust and estate, probate and tax planning to dispute resolution and family division. Pall Mall Art Advisors is a well established valuation practice that works with major insurance brokers, law firms, banks, accountants, wealth managers and institutions.

**Ronald Varney, Owner and President, *Ronald Varney Fine Art Advisors***

Ronald Varney Fine Art Advisors specializes in providing impartial, confidential advice on buying and selling art in virtually any collecting field. Their extensive professional experience in the auction world makes them uniquely qualified to handle the sale of artwork at the major auction houses on behalf of clients. They are not art dealers and do not act in any capacity except directly on behalf of a client according to their specific art-related needs.

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**Evan Jehle, Principal, *Rothstein Kass***

Rothstein Kass is one of the world's most trusted assurance, tax and advisory firms serving leading businesses, business owners, institutions and individuals in the U.S. and abroad. With more than 1,000 dedicated employees in 10 offices, Rothstein Kass combines market-leading expertise with decades of real-world experience and collaboration. For more than five decades, Rothstein Kass has helped clients achieve the highest levels of performance, prosperity and security. Rothstein Kass experts rank among the world's leading authorities on tax, accounting, finance, regulatory, and an array of business services and strategies.

*Important Notice: This white paper contains only a general description of the insurance coverages provided by ACE Private Risk Services. Coverage terms are subject to change and can vary by state. The white paper does not include all of the benefits and limitations found in the policy. The insurance policy itself, not this white paper, will form the contract between the policyholder and the insurance company. The safety information is advisory in nature. All studies by Tröv Specialists were conducted with USPAP Certified Appraisal partners using all information available at the time of analysis. Access to the Tröv online service requires a valid Internet connection. Tröv users are urged to follow up with their respective advisors to confirm that items sent from their Tröv account are in fact adequately protected and accounted for. No liability is assumed by reason of the information in this document.*

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